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## Lowest Price Guarantees in Hospitality

Age old wisdom to beat the intermediaries at their own game! | By Max Starkov and Jason Price

The catch phrase "Lowest Price Guarantee" is an age-old marketing tool widely used in retail since ancient times. Even before the Romans knew how to conquer merchants were selling their wares in bazaars and marketplaces drawing in buyers with a lowest price guarantee. Fast forward to present day and some of the most successful retail companies in the US tout the lowest price guarantee. The strategy has worked effectively from the corner boutique to behemoth Wal-Mart, and continues to serve as a standard marketing tool. Why have hoteliers been slow to adopt a policy on lowest price guarantee? How can hoteliers institute such a policy without interfering or alienating its prime distribution channels? What is the applicability of the lowest price guarantee in hospitality?

## Background:

Lowest price guarantee is a pact between buyer and seller that the price tendered is the mandated lowest price available for the item. It is an assurance; hence guarantee that the specific item for sale is the lowest possible price available on the market. With the success of Wal-Mart operating across the US, such assurances work as buyers keep coming back.

The Internet has become a great incentive for people to search and book travel online. Practically full information is available with a key stroke and since 9/11 many US travelers have become convinced that the best travel deals can be found on the Web, partially due to the very concerted promotional efforts by the airlines and online discounters. Lower prices and "assurance of lower prices" are cited as two of the main factors that would influence people to book online.

Online intermediaries, quick to realize the huge potential of this marketing tool, began instituting lowest price policies as early as the mid 1990s. Namely, Hotels.com practically "invented" the lowest price guarantee in the online hospitality marketplace and has been using it successfully for over 5 years now. Undoubtedly, it is one of the main reasons for its success. The opaque services Priceline and Hotwire launched similar guarantees but while Priceline stands by its "Best-Price-Guarantee", Hotwire goes a step further by promoting a "Double the Difference Price Guarantee", if, within 48 hours of booking, the customer finds a lower price for the entire stay for an equivalent room type in the same hotel on the same dates.

Why hoteliers are late to the game remains a mystery but fortunately a few brands have begun fighting back. InterContinental Hotels Group, Starwood and Cendant introduced their own versions of lowest price guarantees in May and June of 2002 and Accor followed suit in March of 2003.

### A Powerful Tool to Boost Direct Online Distribution

The lowest price guarantee is applicable to every hospitality business model from corporate brand to hotel management company to the independent corner hotel. The lowest price guarantee is one of the most potent techniques hoteliers have at their disposal to boost direct-to-consumer online distribution. Used wisely such a tool can play an important psychological and promotional role in online distribution.

Hoteliers benefit by offering the lowest price guarantee:

- Serves as a great tool to beat the online discounters at their own game
- Such guarantees entice more consumers to book from you online
- Rate guarantees can dramatically boost conversion rates on the hotel website
- It is less expensive to guarantee the lowest price than to sell through online discounters
- Rate guarantees are great customer retention instruments
- Such guarantees have important psychological and promotional effects for consumers
- More and more, the guarantee is an expectation by online consumers
- Price guarantees have a great "word of mouth" effect.

### Online Travelers Love Rate Guarantees

The following two key considerations clearly support the importance of the lowest price guarantee:

- Online travelers (lookers and bookers) claim that "assurance of lowest price" will influence them to book, more often, online.
- Online travelers overwhelmingly prefer dealing with travel suppliers over intermediaries.

In other words, by providing a lowest price guarantee, the travel supplier responds in a very categorical way to both primary preferences of the online traveler: guaranteed assurance and supplier direct.

Here is how US travelers respond to the question "Which of the following would influence you to book, or book more, online?"

Many surveys show that online customers prefer dealing directly with the travel suppliers, including hotels, when purchasing travel online. Here is how online US leisure travelers respond to the question "If you knew that the price of travel would be the same, who would you prefer to buy travel from?"

- Travel Supplier: 69%
- Travel Agency: 27%
- Other: 4%

(2002, Forrester Research)

In its June 2003 analysis report, iPerceptions Inc. reports that there has been a shift in the "purpose of visit" to hospitality related websites, undoubtedly due to the introduction of "lowest price guarantees".

Case Study: InterContinental Hotels Group

- "Lowest Internet Rate Guarantee" launched May of 2002.
- This was the first major brand to introduce lowest price guarantees.
- The Internet rate guarantee works in the following manner: InterContinental Hotels will match the lower rate once it is verified and will provide an additional 10% discount.
- Internet revenues increased by 80% since introduction of the rate guarantee in May of 2002 (compared to industry average of 40%).
- Challenges to the rate guarantee average approximately one per thousand online bookings (0.1%), confirming that indeed the rates on the InterContinental Hotels websites are the best available and that "financial cost" of the rate guarantee is insignificant.
- In May, InterContinental Hotels Group launched a major offline advertising campaign focused on the rate guarantee.

The experience of InterContinental Hotels clearly indicates the lowest price guarantee works, just as it has worked for centuries in the ancient bazaars. Now industry-wide adoption is necessary as a means to take back from the intermediaries ground lost over the years.

Take note independent hotels, resorts, casinos, hotel management companies, and franchised hotels with a stand-alone website, implement your own lowest price guarantee. Turn to an experienced eBusiness hospitality consultancy that can help you conceptualize and implement your own lowest price guarantee that is, a) appealing to the travel consumer, and b) easy to implement and manage, thus boosting your direct-to-consumer distribution, website conversion rates, and Internet revenues.

Conclusion

The direct-to-consumer model should become the foundation, the centerpiece of any hotel company's online distribution strategy. The direct-to-consumer model provides the hotel with long-term competitive advantages and lessens dependence on intermediaries, discounters and traditional channels nearing obsolescence. The Lowest Price Guarantee is one of many important components that serve as the underpinning of the hotelier's robust Direct Online Distribution Strategy. HeBS provides a kit for hoteliers to implement, institutionalize, and safeguard your own Lowest Price Guarantee.

